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C O N F I D E N T I A L BELMOPAN 000165

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FOR WHA/CEN - R. BEAL

E.O. 12958: DECL: 03/19/2018

TAGS: PREL EPET EINV BH

SUBJECT: (C) BELIZE: GOVERNMENT TO SHUT DOWN THE ONLY  
PRODUCING OIL COMPANY?

Classified By: Charge Leonard A. Hill for reason 1.4(b) and (d)

¶1. (C) SUMMARY: With no warning, the GOB is sending mixed signals about its intentions regarding Belize Natural Energy, the sole oil-producing company in Belize. BNE is a Belizean corporation but has significant U.S. investment. The timing of a government letter telling BNE to remedy seven deficiencies or face termination of its production sharing agreement suggests poor internal coordination within Dean Barrow's new administration. The company has replied to all points raised and we are urging the government to respond promptly and favorably to avoid discouraging investment in the energy sector. END SUMMARY.

¶2. (C) Embassy learned late in the day March 17 that the GOB had sent a "Notification of Intention to Terminate Production Sharing Agreement" to Belize Natural Energy (BNE), the sole company in Belize producing oil. BNE's principal shareholder is a U.S. entity, CHx, headed by Denver businessman Alex Cranberg (protect).

¶3. (C) According to the letter, from Natural Resources Minister Gaspar Vega, BNE is in violation of the terms of its production sharing agreement (PSA) with Belize. The seven deficiencies cited range from failing to make required royalty payments to failing to complete a transfer of a 10% working interest in BNE's Spanish Lookout field to the GOB, to "a general attitude of nonchalance on the part of BNE particularly toward the Geology and Petroleum Department." The letter gives BNE 30 days to remedy the deficiencies or "the matter will be taken back to Cabinet to contemplate cancellation."

¶4. (C) Ambassador and EmbOffs met with Cranberg and Susan Morrice, another director of BNE, shortly after the letter was received. Cranberg suspected BNE was being "sandbagged" by mid-level government officials with whom BNE has had a sometimes-contentious relationship. He noted that Minister Vega had appeared uncomfortable delivering the letter, and that in a subsequent meeting with Minister of State Elvin Penner, Penner had told him that the Cabinet had not actually approved the text.

¶5. (C) Cranberg met briefly March 18 with PM Dean Barrow, who seemed surprised by the tone and contents of the letter but did say that he understood there were some problems with BNE's operations and the letter was intended to put the firm on notice to tighten up its practices. He also said that, with oil prices so high, a windfall profits tax seemed appropriate. Cranberg subsequently met with the CEO (Deputy Minister equivalent) of Natural Resources who was conciliatory and said "this will all be resolved, don't worry." (NOTE: The meeting with the PM had been scheduled

for some time. BNE originally planned to use it to inform Barrow that the firm intended to increase its investment by US\$200 million to drill multiple additional wells. This would be the largest foreign investment to date in Belize. We had discussed having the Ambassador attend this rollout of the BNE investment plan, but decided not to do that once it became clear that BNE would put the expansion on hold until the status of its PSA is resolved. END NOTE.)

¶6. (C) COMMENT: Neither the Embassy nor BNE had advance notice that the Ministry was preparing to send such a strong letter, surprising given that we have met with all of the players, in some cases multiple times, since the election, always stressing the need for predictability and transparency in the natural resources sector. BNE sent a comprehensive response to the letter on March 18, which should put to rest the possibility of Cabinet considering termination of the PSA. However, it seems clear that the GOB is looking to ratchet up the tax take from the oil sector, most likely through a windfall profits tax as the PM suggested. The new government's recent Throne Speech (septel) noted without specifics that all Belizeans would get access to oil revenues.

¶7. (C) The timing of the letter was particularly poor -- on the eve of the PM's visit to the White House and just as BNE was about to propose a major new investment -- leading to questions of how well the Barrow government is coordinating internally. If this becomes a pattern it will call into question what we have been told about the government's openness to investment and how it plans to improve the economy. Both BNE and the GOB are seeking to avoid publicity in this dispute, and we are urging the government to respond promptly and favorably to BNE's letter. Failure to do so will leave a cloud over not only BNE but over the whole

energy sector and could discourage further investment in exploration.

¶8. (C) Our impression is that, overall, BNE has behaved responsibly in its operations here. It seems clear, however, that management has not been communicating effectively with the regulators and probably has taken a "nonchalant" attitude toward some of the obligations under the PSA. In BNE's defense, however, this is the way business is often done here, where slow-moving government bureaucracies can lead to frustration and delay. Case in point: had BNE not been aggressive in moving forward after the PSA was signed the company would likely still be waiting to drill its first well. Whatever technical violations BNE has committed -- and one that was not mentioned in the letter was operating a small refinery without a permit for months -- do not appear to us to justify terminating the agreement. Penalizing the one successful company in the industry is not a good way to encourage others to risk money to find energy here. END COMMENT.

HILL